

The Internationalisation of Malaysian SMEs

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Abstract. This paper presents the descriptive analysis of a study on internationalisation among Malaysian SMEs. The objective is to highlight the number of firms that do involve in international market, reason for internationalisation and their mode of entry into foreign market. For SMEs that do not internationalise, the concern is more towards the reason why they did not. Discussions are based on the related theories of internationalisation namely the Uppsala Model, Network Approach and International New Venture or Born global. Data were collected through self-administered questionnaire and a total of 250 responds were received. Findings indicate that exporting was the most used mode of entry and increasing profit was the main reason for internationalisation. Various internationalisation processes were adopted but the step-by-step and cautious approach seems to be the most popular. Potential difficulties and uncertainties in making profit appear to be the major reason for SMEs that did not internationalise. Crosstab analysis has been conducted to look at the characteristics of SMEs that internationalise. Discussions of the findings, significance of the study and direction for future research are then discussed.

Keywords: Internationalisation, Small and medium enterprises, entry mode, Malaysia

1. Introduction

Globalisation together with the reduction in trade barriers and tariff due to regional economic integration and World Trade Organisation (WTO) provide the opportunity for small and medium enterprises (SMEs) to expand their business into foreign market. Undoubtedly, SMEs play an increasingly active role in international markets in recent years and rapidly expanding their businesses to international markets, using international diversification as an important strategic option to achieve growth [1]. Significantly, in East Asia, 90 percent of all business enterprises are SMEs which suggests that they have a strong role in enhancing their nation's employment, economic and social development. Moreover, SMEs is also a source of innovation, generating exporting opportunities, and as the source of future successful large-scale enterprises [2]. According to Malaysian Productivity Corporation (2007), SMEs contribute about RM4.3 billion or approximately 20 % of the Malaysian gross domestic product (GDP) in 1990. In 2007, its contribution had increased to about 32 per cent of GDP, an increased of 12 per cent in 17 years [3]. The increased in its contribution to total GDP over years signify that SMEs has the potential to promote domestic-led growth in existing and new industries, and to strengthen the resilience of the economy in an intensifying global economic competition [4]. Compared to other countries, Malaysian SMEs have contributed a creditable share as Germany recorded 57% share, Italy 36.7 %, Taiwan 31.4 %, Japan 20.3 % and Republic of Korea 16% [5]. However, very little is understood about the level of internationalisation among SMEs in Malaysia, why and how they internationalize their business. Even among those who did not internationalize, not much evidence on research conducted to study the barriers why it happens. Therefore, the internationalisation of SMEs in Malaysia warrants investigation as there is little empirical evidence of why and how the Malaysian SMEs penetrate the international market. The objective of

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this paper is to increase the current level of understanding on the level of internationalisation by Malaysian SMEs, why and how they internationalize. Another focus is on the barriers for internationalisation among those who have no international involvement.

2. Definition of SMEs

In Malaysia, the term SMEs is often used interchangeably with small and medium scale industries ‘SMI’ [6], [7], [8]. There were no common definition of SMEs among the different Malaysian agencies and institutions and it is necessary to introduce standard definitions for SMEs since the definition used at that time mainly refers to the manufacturing sector. Small and Medium Enterprise Corporation Malaysia (SMECorp) [9] underline 2 criteria that characterize the standard definitions of SMEs in Malaysia, which is the number of employees or annual sales turnover. These apply to four main sectors; Primary Agriculture, manufacturing (including agro-based), Manufacturing-Related Services (MRS) and Services (including information and communication technology). Table 1 shows the range of current SME definitions in Malaysia.

Table 1: Approved Standard SMEs Definitions (as of January 2011)

Size	Number of Full-Time Employees		Annual Sales Turnover	
	Manufacturing (including Agro-based & MRS)	Services Sector (including ICT and Primary Agriculture)	Manufacturing (including Agro-based & MRS)	Services Sector (including ICT and Primary Agriculture)
Micro	Less than 5 full-time employees	Less than 5 full-time employees	Less than RM250,000	Less than RM200,000
Small	Between 5 and 50 full-time employees	Between 5 and 19 full-time employees	Between RM250,000 and less than RM 10 million	Between RM200,000 & less than RM1 million
Medium	Between 51 and 150 full-time employees	Between 20 and 50 full-time employees	Between RM10 million and RM25 million	Between RM1 million and RM5 million

3. Internationalisation

There are various definitions of internationalisation being used by researchers and it varies depending on the interest and phenomenon of the study. It has been describes as the process of adapting firms operations (strategy, structure, resource) to international environments [10]. Other definition describes internationalisation as a gradual process whereby a firm develops a network of global trade relationship [11]. Javalgi, Griffith and White [12] then look at most of the literature on internationalisation and summarize it as a process through which a firm moves from operating in its domestic marketplace to international markets. There are many theories that explain the internationalisation process. Early theories view internationalisation as a stage, where firms follow a step by step process that starts from no international activity and goes on to engage in some international activity and then ends up owning subsidiaries abroad. Such is the case of the Uppsala model [13]. Johanson and Mattsson [14] then introduced ‘The Network Approach’ that highlights the importance of relationships with suppliers, customers and market that can stimulate or help a firm to go abroad. Nowadays, technological advancements and declining trade barriers are driving the world economy to become integrated and rapid globalization is enabling SMEs to internationalize in a quicker yet effective manner [1]. As a result, some scholars question the validity of the Uppsala model and the network approach, and argue that the model is no longer explain the internationalisation of today’s firms as more firms nowadays are international from inception. McDougall and Oviatt [15] introduced the concept of International New Ventures (INVs) and followed by Born Global [16] to explain this new trend of rapid internationalisation.

4. Research Methodology

Data for empirical analysis were collected via self-administered survey questionnaire. Surveys were distributed to SMEs in Malaysia at various SMEs related exhibitions and expos organized by various government agencies. 400 questionnaires were distributed to the key informant of the company within three states; Johor, Selangor and Kuala Lumpur. 250 completed and usable questionnaires were returned making the overall response rate was 62.5%. The data was than analyzed using SPSS 14 software in order to obtain the result.

5. Data analysis results

In terms of key informants, 95 or 38% of the respondents are at the managerial level while 66 are managing directors (26.4%). Others are assistant manager 37 (14.8%), CEO 30 (12%) and executive/supervisor 22(8.8%). Table 2 shows the profile of each company where majority of the SMEs came from food and beverage industry with 99 firms (39.6%). This is followed by textile, apparels and leather industry with 35 firms (14.0%), healthcare 11.2% (28 firms). Other industries include wood and wood products industry 27 firms (10.8%), plastic products 20 firms (8.0%), rubber products 15 firms (6.0%) and other industries 7 firms (2.8%). More than half of the SMEs employs between 51 to 150 employees with a combine percentage of 62%, while another 21.2 % or 53 SMEs have between 5 to 50 employees. 42% SMEs have less than 5 employees or 16.8%. In terms of annual turnover, majority of them earn between Ringgit Malaysia (RM) 10.1 to 25 million a year, while the rest earns between RM 250k to 10 million. 42 companies or 16.8% however earn less than RM 250k. Based on the number of employees, turnover and classification shows in table 1, it can be said that majority SMEs in this study are medium in size. Table 2 also indicates that more than half of the SMEs involved in this study did not involve in any international business activities with 141 firms (56.4%), while 109 (43.6%) do internationalize.

Table 2: Profile of the company

	Frequency	Percentage		Frequency	Percentage
Industry			Annual Turnover		
Electrical & Electronics	19	7.6%	< 250k	42	16.8%
Food & Beverage	99	39.6%	250k-1Mil	30	12.0%
Plastic Products	20	8.0%	1.01Mil-5Mil	20	8.0%
Rubber Products	15	6.0%	5.01Mil-10Mil	3	1.2%
Wood & Wood Products	27	10.8%	10.1Mil-25Mil	155	62.0%
Textile, Apparels & Leather	35	14.0%	>25Mil	-	-
Healthcare	28	11.2%			
Others	7	2.8%			
Number of Employees			International Business		
< 5 people	42	16.8%	Yes	109	43.6%
5-50 people	53	21.2%	No	141	56.4%
51-99 people	100	40.0%			
100-150 people	55	22.0%			
> 150 people	-	-			

Note: N = 250

Table 3 highlights the main reason why Malaysian SMEs internationalize. Increase profits (40 firms, 36.7%) top the list, followed by market opportunity where 26 (23.9%) respondents chose this reason. Other reasons which are entrepreneur motivation (15, 13.8%), business expansion (14, 12.8%) and market for product (14, 12.8%) are also important reasons for foreign expansion. In terms of mode of entry into foreign market, exporting is the most popular method with 81 SMEs or 74.3% use it while other 17 or 15.6% use licensing. Just a small number of companies use franchising, joint venture or wholly own subsidiary as the cumulative percentage for these three modes are only 10.2 %.

Table 3: Internationalisation

	Frequency	Percentage		Frequency	Percentage
Reasons			Domestic position		
Market opportunity	26	23.9	INVs	16	14.7
Increase profit	40	36.7	Leaders	5	4.6
Business expansion	14	12.8	Good	50	45.9
Market for product	14	12.8	Growing	30	27.5
Entrepreneur motivation	15	13.8	New comer	8	7.3
Mode of entry			Process		
Exporting	81	74.3	Step by step, risk averse,	46	42.2
Licensing	17	15.6	slow and cautious		
Franchising	3	2.8	Through networks, contact	37	33.9
Joint venture	5	4.6	or partners		
Wholly owned subsidiary	3	2.8	Rapid internationalisation	26	23.9
			and expansion		

Table 4 explains the reason or barrier to internationalisation as indicated by 141 SMEs that did not involve in international business activities. Entrepreneurs are unsure of whether internationalisation will give them profit or not due to the level of difficulties and uncertainties in foreign market was the most cited reason. 53 firms or 37.6% choose this reason while 35 others (24.8%) are concern over their lack of experience. Difficulties in getting new business network and customers come third with 22 companies (15.6%) followed by the risk and uncertainty in foreign operation (19, 13.5%). Cultural and language differences are not much of a big concern for these SMEs as only 12 firms (8.5%) chose it as the reason.

Table 4: Non-internationalisation reasons

No.	Reasons	Frequency	Percentage
1.	Lack of experience	35	24.8
2.	Risk and uncertainty of foreign operations	19	13.5
3.	Cultural and language differences	12	8.5
4.	Difficult to get new network and customers	22	15.6
5.	Difficulties and uncertainties of making profit	53	37.6
	TOTAL	141	100%

Cross tabulation analysis (Table 5) was conducted to look attributes of SMEs that involved in international business. Based on the industry, SMEs that produce food and beverage tops the list with 39 companies sell their product overseas. Next is wood and wood product together with healthcare product with 15 SMEs. In terms of years of operations, majority of these SMEs have been in business in between 3 to 10 years with a total of 71 companies. Analysis even shows that majority of SMEs that internationalise have been in business for more than 3 years. In terms of employees, 49 SMEs that internationalise employs 51 to 99 employees, while another 32 have between 100 to 150 employees. Surprisingly, 11 SMEs were still able to internationalize even though they have less than 5 employees.

Table 5: Cross tabulation Analysis

	Frequency		Frequency		Frequency
Industry		Years of operations		Employees	
Electrical & Electronics	11	< 1 year	6	< 5 people	11
Food & Beverage	39	1 – 2 years	13	5-50 people	17
Plastic Products	7	3 – 6 years	35	51-99 people	49
Rubber Products	6	7 – 10 years	36	100-150 people	32
Wood & Wood Products	15	> 10 years	19	> 150 people	-
Textile, Apparels & Leather	13				
Healthcare	15	NOTE: N = 109			
Others	3				

6. Conclusions and direction for future research

This study indicates that the number of Malaysian SMEs that involved in international business activities is less (109) compared to those who did not (141). For those who do internationalize, increase in profit is the major reason behind their move. This is understandable as Malaysian market is very small and therefore, SMEs have to expand their market to gain more revenue. Finding is similar with Burpitt and Rondinelli's [17] study which shows that financial success motivates SMEs to internationalize in subsequent periods. To achieve this objective, SMEs use different methods and strategies when penetrating into foreign markets. Exporting seems to be the mostly used mode of entry as almost 75% out of 109 companies utilizes this method. SMEs are relatively small in their size and with their lack of resources, exporting is indeed the most relevant entry mode. Only small numbers of SMEs were able to use wholly owned subsidiary as this mode of foreign entry is the most expensive method of going abroad. This finding fits perfectly with the Uppsala model idea of exporting as the first step to enter an international market and it will serve as a platform for further international expansion using a more comprehensive mode of entry such as licensing, franchising or wholly owned subsidiary. The choice of exporting as the main entry mode may also be associated with the internationalisation process of these SMEs as almost half of them indicates that they choose the careful, cautious and step by step approach when internationalize in order to avoid risk, followed by through network. However, there is quite a number of SMEs that goes for rapid expansion. The important finding of this study is the fact that there is no single theory that can explain the internationalisation of Malaysian

SMEs. The Uppsala model, network approach and INVs or Born Global are still relevant in the context of Malaysian internationalisation. Even the Uppsala Model that has been criticized as not applicable in today's market environment is still valid as not all Malaysian SMEs that involved in international business are INVs or Born Global in nature. This study contributes in a way that it provides the important information for government agencies, policy makers, managers and researchers by highlighting a number of key issues that affect Malaysian SME's future international expansion in the global market. This study is also important because it represents an attempt to rigorously identify successful evidence of SMEs internationalisation as well as entrepreneurs who made decision to internationalize for their firms. Finally, there are many possibilities for further research in SMEs internationalisation. Future study may consider investigating the internationalisation of Malaysian SMEs in different industries especially in the service sector (including ICT and Primary Agriculture). Moreover, it would be a good idea to investigate the influences of government policy, culture and many other factors as a mediator or moderator variable during internationalisation process.

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